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A case for power-based explanations

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Published in:
European Journal of Industrial Relations

DOI:
[10.1177/0959680114527032](https://doi.org/10.1177/0959680114527032)

Publication date:
2014

Document version
Early version, also known as pre-print

Document license:
[Unspecified](#)

Citation for published version (APA):
Ibsen, C. L. (2014). Three approaches to coordinated bargaining: A case for power-based explanations. *European Journal of Industrial Relations*, 21(1), 39-56. <https://doi.org/10.1177/0959680114527032>

Three approaches to coordinated bargaining – a case for power-based explanations

Christian Lyhne Ibsen

Abstract

This article reviews and discusses three different theoretical approaches to the study of coordinated collective bargaining which posit three different causal mechanisms for coordination. Rational choice posits power relations based on resource-dependence; rationalist institutionalism posits rules of the game; and discursive institutionalism stresses shared meaning structures. It is argued that each approach is based on different views of coordination involving exercise of power where some actors make others do what they otherwise would not have done. Coordination could therefore have negative distributional consequences for coerced actors. The paper goes on to show examples of the three approaches from Sweden and Denmark which are regarded as crucial cases for ‘Sinatra-inference’: If theories of coordination stressing power and negative distributional consequences can make it in Sweden and Denmark, they can make it anywhere. The article accordingly rejects notions that coordination is purely cooperative and makes a case for placing power at the heart of coordination studies. This does not preclude elements of cooperation but it shows that cooperation is conditioned by power relations.

INTRODUCTION

Coordination of collective bargaining across industries has arguably been one of the key issues in industrial relations research and comparative political economy in recent decades. Concepts like ‘organised decentralisation’ (Traxler, 1995) and ‘coordinated market economies’ (Hall and Soskice, 2001) underline the prevalence of coordination in research. The concept has on one hand been linked to the interdependence of bargaining units with concern for wage moderation and employment. On the other hand, it has been linked to ensuring that bargaining units do not drift completely apart due to concerns for solidarity by keeping a floor under wages. So, *‘when actors face a high degree of interdependence of their goals, then coordinated action generally makes all of them better off than self-interested behaviour’* (Traxler, 2003a: 195). By balancing efficiency with equity, coordinated collective bargaining is often regarded as a fundamental pillar in the European social model (Jepsen and Serrano Pascual, 2005). Moreover, empirical

studies have previously suggested that coordinated bargaining is conducive to wage moderation and compressed wage structures and thus reduces inflation while avoiding inequality (Traxler and Brandl, 2012; Wallerstein, 1999; Calmfors and Driffil, 1988).

The question is, however, whether all actors really are better off with coordinated bargaining? And if some actors are worse off, why do they accept current systems of bargaining coordination? The above quotation stresses the positive-sum nature of coordination in situations of high interdependence, but this could obscure power relations and uneven distributive consequences of coordination. Indeed, there are good reasons to believe that the current systems of coordinated bargaining entail winners and losers, e.g. from rising wage inequality (Baccaro and Howell, 2011; Palier and Thelen, 2010; OECD, 2011). Accordingly, we need to ask about the practices and outcomes of coordination to critically explore coordination as a political practice with potential distributional consequences. In other words, we need a concept of power in studies of bargaining coordination that identifies the causal mechanisms behind bargaining coordination.

One strand of literature argues that bargaining coordination rest on the power relations between unions and employers. It is the resources available to actors that have an interest in coordination vis-à-vis resources of actors that prefer no coordination which will determine the fate of coordination. Often these resources are market-based (e.g. an industry's share of the economy) or organisational (e.g. union density). Another strand of literature stresses how institutions mediate interests and that rules of the game conducive to coordination will be a strong explanation for its occurrence and sustainability. These institutions are often – but not exclusively – statutory supports for collective bargaining and are often used to explain variation of bargaining coordination across countries. Moreover, it is argued that institutions have distributional consequences for the actors, favouring some interests over others. Finally, some scholars claim that coordination can be explained by discourses – or meaning structures – that are inter-subjectively shared by bargaining parties and will lead them to coordinate across industries. Discourses define what is desirable and how to get it and as such can have a coercive effect by moulding the interests of actors. As defined here, the three approaches thus share an appreciation of power in coordination. However, they differ in their view of the causal mechanisms leading to and sustaining bargaining coordination.

The purpose of this paper is to review and discuss these three approaches to bargaining coordination and to test their applicability in Swedish and Danish bargaining coordination. The paper contributes to studies of bargaining coordination in three areas. Firstly, it aims to rectify the literature's often excessive focus on bargaining structure and levels as signs of coordination (e.g. Wallerstein and Golden, 2000). Structures and levels, while analytically very useful, take

out the political of coordination and cannot be the whole story (Thelen and Kume, 2006). We need to put power back into studies of coordination by asking the fundamental question: Whose interests prevail in coordination? Secondly and related, the focus on strategic interaction makes us deduce that coordination brings mutual benefits to all parties. But this might obscure mobilization of bias and ideological power (Lukes, 2005). Studies of coordination should be more sentient to these forms of power in order not to reify proposed mutual gains of coordination (Moe, 2005; Hyman, 1974). Thirdly, coordination and changes in coordination are often explained exclusively in rationalist terms using transformations of material structures, e.g. market internationalization, structural occupational changes and transitions to flexible production systems, which reorder actors' preference for coordination (Iversen, 1996). Conversely, little has been done on how actors made sense of these structural changes (Blyth, 2003). Such an appreciation entails a closer attention to the role of discourse and ideology in studies of bargaining coordination.

The plan of the article is as follows. Firstly, the paper reviews and discusses approaches to bargaining coordination through the lens of cooperation or power. Three approaches are presented: rational choice theory, rationalist institutionalism and discursive institutionalism. The approaches differ in their causal mechanisms behind coordination, and we will show that they also differ in their view on power. Secondly, to assess the applicability of the three approaches the paper shows examples from bargaining coordination in Sweden and Denmark. Both countries are heralded as consensual coordinated bargaining systems with mutual benefits for capital and labour (Pontusson, 2011). As such, Sweden and Denmark are chosen as crucial cases for approaches claiming power over cooperation (Eckstein, 1975). Put differently, they are considered least-likely cases for coordination entailing coercion due to their consensual win-win reputation. This allows for so-called 'Sinatra- inference' (Gerring, 2007): If theories of coordination stressing power exercise and negative distributional consequences can make it in Sweden and Denmark, they can make it anywhere.

APPROACHES TO COORDINATED BARGAINING

The paper includes approaches that attempt to explain the occurrence and sustainability of bargaining coordination. The focus of the paper is not on all forms of coordination as convincingly outlined by Sisson & Marginson (2002). Traxler et al. (2008: 40) note that horizontal cross-industry coordination is the most interesting variant of coordination because it potentially involves disinterest by some sectors and therefore risk of collective action problems. We therefore focus on this form. In open economies, the name of the game in horizontal coordination is to align bargaining results across sectors around the exposed sector – typically

manufacturing – which in turn produces wage moderation and positive effects on employment in general, i.e. a potential positive-sum game. Horizontal coordination, however, faces important collective action problems due the risk of defection by opportunistic sheltered sectors that can pass on labour cost-increases to consumers which in turn produces negative cost-externalities in the economy. Conversely, in sectors with low skill requirements and high supply of labour (perhaps due to labour migration), employers might be tempted to force down wages in an uncoordinated manner. Given these differing interests in coordination – the impossibility theorem (Arrow, 1951) – and opportunities to free-ride on wage-moderation (Olson, 1965) – it might be difficult to create and sustain coordination. The fundamental analytical challenge is therefore to explain how coordination is created and sustained (Traxler, 2003b).

In the following, we will elaborate on the three approaches' causal mechanisms for coordination and how they purport different views of power. Admittedly, the approaches are presented in a very stylized manner to bring out the differences. Researchers will typically not adhere to 'pure' approaches but combine causal arguments. This makes it interesting to consider whether the approaches are competing or complementary explanations for bargaining coordination. We will consider this in the conclusion.

Rational choice

Rational choice theory is pervasive in social sciences and is used widely by industrial relations scholars, political scientist, sociologists while being at the ontological core for economists (Elster, 1989). Fundamental to the rational choice approach is that actors behave rationally to maximise their interests in accordance with their position in material structures (Parsons, 2007). In social processes actors interact strategically to realise their interests partly on the basis of actions made by others. It follows that the logic of action is instrumentality and what varies (and therefore explains coordination) are different positions in material structures and the nature of interaction. How can we use rational choice to explain coordination? One of the best rational explanations for coordination comes from cross-class alliance theory. We only take the theory's logic of interest-constellation, although proponents of the theory clearly use institutionalist arguments. The theory claims that interest in coordination can basically be explained by skill requirements and product market competition (Swenson, 2002). This leads to three groups of actors with differing interests in coordination:

1. In tight product markets with low skill requirements, 'cartelist' employers are interested in 'taking wages out of competition' and unions want standardised rates. Coordination between bargaining units can achieve this.

2. In slack product markets with high skill requirements, ‘segmentalist’ companies want to pay above market-clearance to attract the best and brightest in decentralised agreements with occupational unions. Coordination between bargaining units is only desirable for this group if it constitutes a ceiling for others.
3. Finally, in tight product markets with high skill requirements, ‘solidaristic’ companies want to have flexible wages but avoid high costs, thus leading them to prefer cross-industry coordination to enforce ceilings on wages and costs. Unions in these markets will try to control unions in other sectors to avoid negative cost-externalities.

In open economies, ‘solidaristic’ industries are typically exposed to international competition. Conversely, ‘segmentalist’ industries are typically sheltered domestic sectors in which economic rent can be shared by employers and unions due to low product competition. Finally, ‘cartelist’ industries can be either exposed or sheltered but in both instances, product markets are tight.

Rational choice explains coordination across industries with the exposed sector exercising power over the sheltered sector. The initiative for bargaining coordination comes from the exposed companies and their unions who compete in international markets and cannot externalise costs. There is an exercise of power because the sheltered sector parties accept coordination despite their interest in free-riding on wage-moderation by other industries. The role of power is thus made explicit in rational choice accounts and others building on it (Swenson, 1991; Hall and Soskice, 2001). We suggest that social exchange theory (Molm, 1997) – and its affinities with power-dependence theory – underlies the power concept in rational choice accounts of coordination. At the heart of social exchange theory lays interdependencies between actors, A and B. A yields power over B, if B depends more on resources that A possesses, than A depends on resources that B possesses (Molm, 1997: 31). Under solidarism, for example, employers depend on unions to enforce ceilings on wages thus giving power to unions in their relationship with employers (Swenson, 2002). Conversely, in times of high unemployment and capital mobility, markets can perform wage moderation, thus obliterating the dependence on unions (Traxler et al., 2008).

In cross-industry coordination, what matters is, therefore, the extent of interdependencies between bargaining units. This can be deduced from material structures, for example the openness of the economy, the weight of the exposed sectors for the economy and skill composition in labour markets. In the absence of interdependencies – for example in a situation where home-markets are substantially more important than exports – the need for coordination will diminish as sheltered sectors will not depend on wealth creation by the exposed sectors. Conversely, employers in exposed sectors will find little need for coordination if sheltered

sectors are characterised by very slack labour markets and low pressure on wages (Traxler et al., 2008: 37). The base of power to get sheltered sectors to comply, arise from the dependence of the sheltered sector on resources that the exposed sector possesses – or rather, the resources exposed companies produce through exports. Institutions, it should be noted, are viewed as instrumental for powerful actors to realise the benefits from coordination because they regularise coordination. However, institutions do not independently have a causal impact as they are viewed as reflections of underlying resource-dependence (Parsons, 2007).

In sum, rational choice approach suggests that strategies based on interdependencies in material structures – most notably product markets and labour markets – explain the creation and sustainability of bargaining coordination. As a corollary, moves away from coordination should also be explained by structural changes and the rational power-contingent responses by capital and labour. Indeed, factors such as structural unemployment, capital mobility, product market deregulation, flexible production systems, to name a few, have been used as explanations for employers' move to decentralise bargaining or pull-out of bargaining coordination (cf. Katz, 1993). But as many scholars have shown, these structural changes in markets have not resulted in ubiquitous convergence onto a 'one size fits all' bargaining model (Ferner and Hyman, 1998). Function doesn't necessarily follow structure (Traxler, 2003a). Moreover, as already indicated in the cross-class alliance theory, organisational capacities of actors, i.e. man-made constraints, matter in the power relations between sectors and thus in coordination (Iversen, 1996). This brings us into the institutionalist approach and a different concept of power.

Rationalist institutionalism

Institutionalist arguments are based on 'man-made' or social constraints, such as rules, conventions, and standard operating procedures with path-dependent effects on rational behaviour (North, 1990). Rationalist institutionalism maintains that interests are exogenously given by material structures but that they are mediated by institutions (Hall and Taylor, 1996). Institutions accordingly create incentives and disincentives for certain actions and can therefore solve collective action problems, such as defection in bargaining coordination (Traxler, 2003b). Moreover, institutions are path dependent, i.e. once institutions are created in a moment of indeterminacy – so called critical junctures (Thelen, 1999) – they are hard to change. This is important because it delineates institutionalism from the pure rational choice approach that often includes institutions but argue that they can be readily changed if they do not perform the functions they were set out to do (Parsons, 2007). Conversely, institutionalist arguments rest on the proposition that structural changes will not determine changes in coordination. The sources

of path dependency include ‘sunk costs’ of creating an institution, increasing returns of the institution and transaction costs of changing it (Thelen, 1999).

Which institutions foster bargaining coordination? In this presentation, we only focus only on industrial relations institutions, while scholars from political economy often focus on institutional complementarities between coordination wage bargaining and other sets of institutions like skill development systems (Hall and Soskice, 2001). The obvious candidate is the bargaining structure itself (Clegg, 1976). As Clegg (1976) showed in his seminal comparative analysis of unions under collective bargaining, the internal organisation of class representation follows the external organisation of inter-class bargaining relations. In other words, the institutional level of bargaining determines the locus of power in unions and employer associations and once established this is hard to change. As a corollary, fixing bargaining authority in centralised multi-employer peak-level bargaining also means centralisation of power in confederations. Corporatists (e.g. Lembruch and Schmitter, 1982) focus on how centralisation of actors into few organisations facilitates bargaining coordination due to the eradication of veto-points and internalisation of pay-hikes (Calmfors and Driffil, 1988). Conversely, fragmented organisations lead to opportunism and collective action problems. Even after peak-level bargaining, the basic logic of centralisation vs. fragmentation obviously still holds sway (e.g. Traxler and Brandl, 2012). It is concentration of power into few organisations that effectively compress different interests into singular decisions. As Traxler et al. (2008) and Iversen (1996) for example note, mergers within manufacturing between high-skill and low-skill unions facilitate coordination because the new union gains organisational power over other unions. This is especially the case, if confederations provide forums for deliberation and perhaps even collective ratification of agreements.

Another important set of institutions is statutory (Sisson, 1987). Supportive statutory institutions for bargaining increase the likelihood of coordination by diminishing the opportunities or benefits of defection. Firstly, lax regulation of the right to strike might be conducive to employer preference for coordination. Secondly, peace obligations instil order and managerial prerogatives during agreements, thus reducing employers’ fear of shop-floor conflict and wage-drift. Thirdly, *erga omnes* clauses effectively support multi-employer bargaining and therefore reduce competition between regulatory modes, i.e. between companies covered by collective agreements vs. uncovered companies (Traxler, 2003b). Alternatively, union-led unemployment insurance – Ghent-systems – increases worker propensity to join unions which – *ceteris paribus* – increases bargaining coverage, which in turn reduces competition between regulatory modes (Traxler, 2003b). Again, these institutions are all highly path-dependent – often seen as cornerstones in the European social model (Ebbinghaus and Visser, 1999).

A key dividing line in institutionalist approaches to coordination is whether institutions help actors realise mutual gains through cooperation or they cement unequal power relations (Moe, 2005). The former is a benign view on institutions as solutions to collective action problems with positive sum outcomes, the varieties of capitalism approach often being seen as an example of this view, despite its reference to power (Hall & Soskice, 2001: 5; however see also Hall & Thelen, 2009). The latter is more aligned with the second-face of power (Bachrach and Baratz, 1962) in which non-decision and mobilisation of bias constitute the main mechanisms of coordination. The second-face of power stresses how institutions are essential for understanding power relations because they exclude certain issues from decision-making, most notably the decision to defect from coordination. As a result, coordination can actually be a covert exercise of power by taking the question of whether to coordinate or not out of bargaining altogether.

Historical institutionalism has explicitly recognised how institutions constitute power unequally among actors (Thelen, 1999). Statutory frameworks for collective bargaining can thus facilitate or hinder power relations conducive to bargaining coordination. If strong unions are necessary to force employers into their second best-option of bargaining coordination – as power resource theory (Korpi, 2006) and much IR-theory suggests (Sisson, 1987; Traxler 2003a) – then surely statutory frameworks supportive of unions, e.g. Ghent-systems and *erga omnes* clauses, matter. Conversely, unsupportive frameworks such as the restrictions on industrial action in Britain (Dickens and Hall, 2010) or the union-recognition procedure in the US (Kochan et al., 1994) will weaken unions and therefore enhance the incentive of employers to avoid unions. Arguably, strong unions do not follow from market structures alone, but to large extent from political mobilisation in history and institutionalised opportunity structures that are path dependent and largely explain cross-national variation in coordination (Crouch, 1993; Hyman, 2001). Coalitions that created institutions and support them matter, but institutions have an independent effect on behaviour.

Rationalist institutionalism has been the object of many criticisms (cf. Campbell, 2004). Recently, institutionalist scholars have begun to question the issue of institutional change and shown that actors can change institutions of coordination from within (Streeck and Thelen, 2005). This somehow breaks with a strict notion of path dependency and would suggest that actors are less determined by institutions. Moreover, some scholars question whether the axiom of exogenous interests is really maintained in rationalist institutionalism. Indeed, Thelen (1999) remarks that historical institutionalists differ from many rational choice accounts on exactly this point, arguing that ideational elements of institutions – not merely material structures – also shape interests, which in turn matters for coordination. This brings us to the final approach and a different causal mechanism behind coordination.

Discursive institutionalism

Discursive institutionalism claims that ideas – understood generally as ‘man-made’ social structures of meaning – matter for bargaining coordination (Schmidt, 2008). Analytically, scholars employ normative and cognitive conceptions of ideas. The former views action according to a ‘logic of appropriateness’ (March and Olsen, 1989), while the latter views action according to a ‘logic of causal narratives’ (March, 2010: 42). Normative ideas will define what is desirable and good, while cognitive ideas will define ways to think about how the world works. Parsons (2007) delineates the discursive approach from rationalist institutionalism by arguing that ideas are distinct from institutions because actors internalise them and act according to the meaning they convey (Weick, 1995). As Blyth (2003) has noted, ‘*structures do not come with an instruction sheet*’, that is, we need ideas to make sense of the material structures. Moreover, while ideas are social they are also robust, so, ‘*...once an idea has taken hold ... it’s almost impossible to eradicate*’. Acting contrary to something that is meaningful, makes little sense – just as acting contrary to your interest makes little sense in rationalist accounts.

What is institutional about this approach is that ideas are inter-subjectively recognised and therefore create common expectations about action and interaction which can deter defection – just like a rule would do (Schmidt, 2010). As such, they can be instilled formally in rules and procedures – but the formalisation is a reflection of the underlying meaning structure. Industrial Relations (IR) studies are also starting to use discursive approaches explicitly (e.g. Frege, 2005; Stringfellow, 2012) and they actually have done so for a long time, albeit under the slightly different heading of ideology (e.g. Hyman, 1974).

Scandinavian political scientists have pointed out how discourses of how the economy works affect bargaining coordination (Pedersen, 1989). In what is called the ‘negotiation economy’, organised actors strategically interact conditioned by discourse that provides a common understanding of socio-economic problems (Pedersen, 2006: 248). Based on welfare economics, all political decisions, including collective bargaining, are measured and judged according to how it contributes positively to the economy at large. The discourse both defines what is desirable and ways to get it. Historically, the discourse arises from the small state/open economy trajectory (Katzenstein, 1985) that defines interdependencies and control of externalities as the key to success. And it places great scope for government collectivisation of risks through the welfare state, while accepting ordered voluntarist industrial relations. In turn, it becomes extremely difficult for actors to ‘argue’ for policies that are opportunistic such as defection from coordination. It simply doesn’t make sense. In times of economic crisis, actors will investigate and eventually rally around new prescripts that can restore the economy through collective

actions. This is why centralised bargaining was replaced by a competitive pattern bargaining system that allowed for flexible wages and wage moderation while securing social standards and autonomous bargaining. Negotiation (not markets), coordination (not unilateral action) and collective adaptation (not stasis) are the key regulatory processes through which society as a whole prospers (Pedersen, 2006: 250).

Culpepper's (2008) account on changes in wage bargaining in Ireland and Italy is also exemplary of a cognitive discursive approach. It is, moreover, interesting because Culpepper wishes to retain a rationalist ontology. According to the study, the transition in Ireland to social partnership and the end of Scala Mobile-indexation in Italy was sparked by crucial common knowledge events, in which actors realised new ways of pursuing their exogenously given interests. This is what March (2010) calls high-tech learning through reflection using new causal narratives. By mimicking the logic of wage bargaining in small open-economies like Austria and Norway, Ireland could restore cost competitiveness and secure workers' income. In Italy, credible inflation forecasts paved the way for coordinated industry-level bargaining. The events changed the preference-order of social partners on bargaining institutions because they were endowed with new common knowledge which resets mutual expectations to each other's actions (Culpepper, 2008: 8). It was a new way of thinking how the economy works that made actors realign to bargaining coordination and since the knowledge is inter-subjectively shared, it becomes very hard for individual actors to argue against it – let alone defect from its logic.

With the possible exception of Culpepper, the crucial point for discursive approaches is the construction of interests (Schmidt, 2010). In Lukes' third-face of power, the question of interests becomes a question of power exercise. Accordingly, A exercises power over B by obscuring the real/objective interests of B (Lukes, 2005). In contrast to the mobilisation of bias in rationalist institutionalism – where interests are unalterable but excluded from decision-making – the third face of power shows that the most dominant form of power is one in which B holds subjective interests that are contrary to B's objective real interests. This exercise is usually latent and is sometimes called ideological power resulting in 'false consciousness'. Hereby, it radically departs from some constructivists that argue that reality is entirely constructed. For Lukes, objective interests do exist but they can be manipulated. Ontology aside, the affinity between the discursive approach and the third face of power is that ideas become constitutive of actors that make sense of the situation through normative and cognitive structures. For example neo-liberal ideology (Campbell and Pedersen, 2001) and discourses of globalization (Fairclough, 2003) all have the potential of changing the conditions for coordination, by changing identities and thus interests of bargaining parties. As a case in point, the interests of low skill workers in sheltered sectors become aligned with high-skill workers in manufacturing due to the idea of

competitiveness through wage restraint – even though low skill workers in sheltered sectors gradually lose out due to higher skills premium (Baccaro and Howell, 2011).

Wage restraint due to competitiveness – not equality – becomes the game in town and once the game changes, so do the players (Amable and Palombarini, 2009). In competitive coordination, cost increases in bargaining are aligned with the relevant competitors, usually manufacturing companies in neighbouring countries and sheltered sectors become pattern-followers. Moreover, bargaining competence is delegated to the company level through framework agreements to increase flexibility (Sisson & Marginson, 2002). Because collective bargaining is free – especially in countries with voluntarist traditions – coordination across industries around this cost norm is better achieved if all bargaining units realise or internalise the rationality of moderation due to interdependencies. Thus, after the demise of hierarchical centralised bargaining, self-regulation by actors is necessary (Dean, 1999). Arguably, the materiality of interdependencies is very real when companies shed labour due to cost increases under tight product markets. Nonetheless, it is the framing of this materiality (Campbell, 2004) due to indeterminacy of structures (Parsons, 2007) and the resulting balance between wage moderation, flexibility, equality and voluntarism that matters for a discursive approach. There are many ways of coordinating bargaining which calls for closer attention to the details of coordination techniques because we here find the actual power exercises (Dean, 1999).

Table 1 summarises the three approaches and their main theoretical dimensions regarding bargaining coordination. On this basis, we now turn to examples of the approaches from Sweden and Denmark.

Table 1: Approaches to bargaining coordination

	Rational choice	Rationalist institutionalism	Discursive institutionalism
Logic of interaction	Logic of instrumentality	Logic of instrumentality	Logic of appropriateness and causal narratives
Structuring logic of interaction	Material resource distribution and interaction situation	Rules and standard operating procedures that form mutual expectations for interaction	Cognitive and normative meaning structures that form mutual expectations for interaction
Interest formation	Exogenous – based on material structures	Exogenous – based on material structures but constrained by institutions	Endogenous – based on institutionalized ideas that are constitutive of actors
Coordination mechanism and form of power	Structure of interests and interaction – defection made unviable due to resource interdependence	Incentive structure and mobilisation of bias - institutional design sanctions defection, rewards cooperation and takes defection off the table	Definition of the benefits from coordination and causal narrative on how to achieve it
Explanation for defection and change	Material resource structures change making it opportune to defect from existing coordination. Can give rise to new patterns of coordination.	Material structures change which changes the coalitions underlying institutions. Defection not sanctioned severely.	Counter discourses strong, causal narrative not shared among actors, i.e. weak internalisation of discourse. Reinterpretation of institutions

COORDINATION IN SWEDEN AND DENMARK

Sweden and Denmark are often highlighted as highly coordinated market economies – coordinated bargaining being one important arena for coordination – which have produced efficient and egalitarian outcomes. Both countries have, however, experienced significant changes to their bargaining systems going from centralised peak-level bargaining in the 1950s to 1970s to coordinated industry-level bargaining from the 1990s. Coordination is nevertheless ubiquitous and seemingly consensual – both horizontally and vertically. Bargaining coverage is still high of around 75 % in Denmark (DA, 2013; Larsen et al., 2010) and 88 % in Sweden (Medlingsinstitutet, 2012) and there is continued – although slightly decreasing – income equality (OECD, 2011). They are therefore ‘least-likely’ cases for theories that stress power exercise and uneven distribution in coordination.

How does coordination look like in Sweden and Denmark? Both countries have converged onto a pattern-bargaining system in which coordination is based on manufacturing setting a labour cost norm, usually a percentage increase, which other industries subsequently follow. However, in Sweden numerous industries have defected from the pattern set by manufacturing by settling on a higher percentage labour cost increase (see tables 2 and 3 below). This has not happened in Denmark. While Sweden by no means experienced a breakdown of coordination, defections constitute an interesting puzzle to which our approaches can be applied.

Table 2: Patter-setters and defectors in Denmark 1990-2012

	Pattern-setter	Defectors	Result
1991	Manufacturing (Transport)	-	Synchronised approval
1993	Manufacturing (Transport)	-	Synchronised approval
1995	Transport	Manufacturing	Two-year agreements in transport and construction. Three-year agreement in manufacturing
1998	Manufacturing (Transport)	-	Encompassing strike and governmental intervention
2000	Manufacturing (Transport)	-	Synchronised approval
2004	Manufacturing (Transport)	-	Synchronised approval
2007	Manufacturing	-	Synchronised approval
2010	Manufacturing (Transport)	-	Synchronised approval
2012	Manufacturing (Transport)	-	Synchronised approval

Various sources¹. Note: Transport in parentheses means that this agreement takes out higher wage increases due to the normal wage system – no local wage increases – and that it sets the pattern for the approximately 15 % of the private sector labour market with this wage system.

Table 3: Pattern-setters and defectors in Sweden 1990-2012

	Pattern-setter	Defectors	Result
1991	Tripartite Rehnberg Group	Transport	Approved
1993	Retail	Transport	Partial strike: Transport
1995	Paper and pulp	Various industries	Breakdown in coordination
1998	Manufacturing (IA agreements)	-	Approved
2001	Manufacturing (IA agreements)	Retail Hotel and Restaurants	Approved
2004	Manufacturing (IA agreements)	Food processing Retail Hotel and Restaurants Maintenance	Approved
2007	Manufacturing (IA agreements)	Retail Hotel and Restaurants	Approved
2010	Manufacturing (IA agreements) Salaried workers and academics first	Retail Paper and pulp	Partial strike: Paper and pulp Unsynchronised agreements
2012	Manufacturing (IA agreements)	-	Approved

Various sources²

The comparison begins by describing the material structures of both countries in brief. Hereby, it is acknowledged that material structures clearly matter – but that they are indeterminate with reference to the different bargaining processes in Sweden and Denmark. We argue that institutions and ideas enter this indeterminacy to coerce certain actors into specific forms and outcomes of coordination. In other words, we wish to stress that the approaches can be complementary.

Rational choice

According to the first approach material structures of the countries should be able to account for differences in bargaining coordination. Material structures in Sweden and Denmark are, however, very similar. According to World Bank figures (2013) manufacturing share of GDP is around 20 % in 2011 in both countries while the employment share of manufacturing has dropped since 1980 from around 30 % to around 15 % in 2011. Both have made transitions into flexible production systems (Kristensen and Lilja, 2012) and employment is increasing in the service sector. Moreover, export shares of GDP increased from around 30 % in 1980 to over 50 % in 2011, i.e. increasing economic openness but also independencies. Swedish manufacturing companies have traditionally been very large, competing in global markets with increasingly tight profit margins, e.g. in automotive, whereas the somewhat smaller Danish companies have produced for niche markets (Kristensen and Lilja, 2012). Indeed here we see a difference, but it would make us expect stronger coordination in Sweden than in Denmark. Both countries have large welfare states, relatively high taxation and high female labour participation rates together with generally high employment rates. The transition to low-inflation economic policies came in the 1980s in Denmark, while Sweden waited until the 1990s (Iversen and Pontusson, 2000). Union densities remain relatively high – around 65-70 % – despite recent changes to the Ghent-systems (Kjellberg, 2009; Due et al., 2010). Employer density (both public and private sector) is also high – although Danish employers are less organised than their Swedish counterparts, 71 % and 86 %, respectively (DA, 2013; Medlingsinstituttet, 2012). In recent years, the tradition for union-labour party links has formally weakened in Sweden and Denmark; however, informal links are still strong. Despite these similarities Swedish bargaining coordination has, as noted, failed significantly more times than the Danish. This indicates indeterminacy: why do similar structures lead to different coordination outcomes?

Rationalist institutionalism

Rationalist institutionalism gives us the following explanations for this apparent difference. Firstly, we find significant differences in organisational structures of unions and employers. In 1991-1992 Danish Industries (DI) – a new super confederation of industry – was created in Denmark which now represents 60 % of employment within the Danish Confederation of Employers (DA). The move culminated the 1989 reorganisation of DA which reduced the number of employer associations from 150 to 50. In 2013, there are only 13 employer associations in DA – signifying great concentration. Similarly, in 1992, CO-industri – a bargaining cartel with unified decision-making – was formed between metalworking unions and other manufacturing unions. Hereby, a strong cross-class alliance in manufacturing – with

concentrated actors on both sides – was born (Due et al., 1994; Scheuer, 1993). Swedish employer associations in manufacturing, conversely, did not merge. Clearly, Teknikföretagen – representing metalworking – has a privileged role due to its size, but it is dwarfed by its Danish counterpart DI – and only represents approximately 16 percent of Svensk Näringsliv – SN. Moreover, SN has 49 affiliates signifying more fragmentation. On the union side, a new bargaining cooperation called Facken inom Industrin (FI) joined the SACO union for engineers (Sveriges Ingenjörer), TCO union for salaried workers (Unionen –former SIF) with LO-unions for manual workers. This certainly strengthened cross-confederation coordination but did not create a bargaining cartel – like CO-industri in Denmark. Greater concentration of decision-making power in Denmark could explain fewer defections from coordination in Denmark compared to Sweden.

Secondly, we need to consider differences in agreement ratification procedures. In Denmark, DA ratifies agreements in an executive meeting in which DI holds a de facto majority vote. It therefore has veto-power over other bargaining units. Such procedures are non-existent in SN and defections can only be sanctioned by naming-and-shaming and symbolic fines. On the union side, neither LO-Sweden nor LO-Denmark holds veto-powers over agreements. However, the powers of mediation systems significantly alter this. In Denmark, the mediation institution – forligsinstitutionen – is competent to link agreement areas into singular union ballots, i.e. even bargaining units that have not reached agreements will receive a common proposed settlement that mimics the dominant agreement, that is, the DI and CO-industri agreements. Hereby, potential defectors that we see in Sweden are effectively reigned-in by a majoritarian vote. Conversely, Swedish mediators – Opartiska Ordföranda and Medlingsinstitutet – have no such tool. Even though mediators are formally restricted to proposing settlements in line with the manufacturing agreements, each agreement is ratified or turned down by competent assemblies of the direct bargaining parties. Defection is therefore possible, albeit conditioned by naming-and-shaming and rather symbolic fines in SN. So, different institutions distribute decision-making power unequally.

The two institutional examples shed light on different conditions for coordination and potentially explain defections. Swedish collective bargaining in turn comes out more voluntarist, in that the direct parties to agreements can decide their own fate, i.e. coercion is weaker in Sweden than in Denmark. In Denmark, coercion is strong since smaller bargaining areas are reigned-in by the ballot procedure and mediation linkage of agreements. Together with a more concentrated bargaining structure, opposing interests to the specific form of coordination are excluded from decision-making. While these institutional differences would suggest that Swedish coordination is chaotic and the Danish is stable, this is too simplistic. Swedish

bargaining since the chaotic 1980s has actually experienced relative stability, save for the mentioned defections. More often than not bargaining areas actually follow the manufacturing norm in Sweden – and this despite defections being institutionally possible and despite the possibility of taking out higher wage increases. Indeed, many union officials from low wage industries explicitly argue in favour of wage moderation based on the manufacturing norm even though this entails gradually growing wage differentials. The article now turns to the discursive approach to investigate the indeterminacy that rationalist accounts leave.

Discursive institutionalism

Two examples will be included for this approach: 1) the macro causal narratives about international competitiveness and the need for coordination based on wage moderation, and 2) the micro techniques in coordination which tell us about specific balances between wage moderation, flexibility, equality and voluntarism.

As Swenson (1991) and Due et al. (1994) have shown for Sweden and Denmark, the key idea in collective bargaining coordination, is the primacy of exports for the economy and therefore interdependencies between the exposed and sheltered sectors. This is based on two logics: Firstly, the welfare state and home-markets are dependent on wealth generation from exports – as reflected in high export shares of GDP. Secondly, cost-increases in sheltered sectors will spill-over into higher costs for exposed sectors, i.e. negative externalities. This analysis demands cross-sectoral coordination between private sectors and between the private and public sectors. Such ideas were formally announced in the ‘Common Declaration’ of 1987 in Denmark, in which union pledged to wage moderation in return for real wage stability, higher employment and increased private savings through occupational pension schemes (Due et al., 1994). Coupled with low-inflation economic policies, the cross-sectoral coordination resulted in the current bargaining system in which manufacturing goes first and mediation settlements sweeps up non-agreeing areas. The big issue becomes the level at which the economy at large will remain competitive. So called campaign institutions, like think tanks, politico-economic secretariats of social partners and government economic councils have been set up to analyse and discuss economic conditions in order to get the levels for coordination right by comparing labour cost developments of neighbouring countries (Pedersen, 2006). Notably in Denmark, the tripartite committee, Statistikudvalg, produce reports on the economic scope for wage increases before each bargaining round. Common causal narratives and common knowledge create mutual expectations for bargaining (Culpepper, 2008).

Similar trends can be detected in Sweden. Various reports analysed the ‘Swedish problem’ in the 1980s, in part zooming in on low governance capacity in wage bargaining (Blyth, 2002;

Ahlén, 1989). Incomes policies were attempted (Elvander, 1989) but without compliance, compensatory wage claims at company level hollowed-out their effectiveness. The breakthrough came with the Rehnberg commission in 1991 which brings the parties together through structured mediation with the purpose of wage moderation based on the so called Edin-norm. Hereby, Swedish wage developments were aligned with foreign competitors. The analysis of structural unemployment, wage rigidities and wage-spirals due to union-rivalry was first accepted in the metalworking unions and then in other manufacturing unions. They formed a bargaining cooperation on the backdrop of a chaotic bargaining round in 1995 to propose the institutionalisation of pattern-bargaining around manufacturing. In 1997, employers in manufacturing signed the 'Industrial Agreement' which set a procedural framework for bargaining and a declared goal of competitive wage developments. Concomitantly, a group of impartial chairs – Opartiska Ordföranda – were placed in charge to mediate in bargaining on the basis of their own analysis of the economic situation. As in Denmark, the name of the game is now to get the level for coordination right by comparing labour cost developments of neighbouring countries.

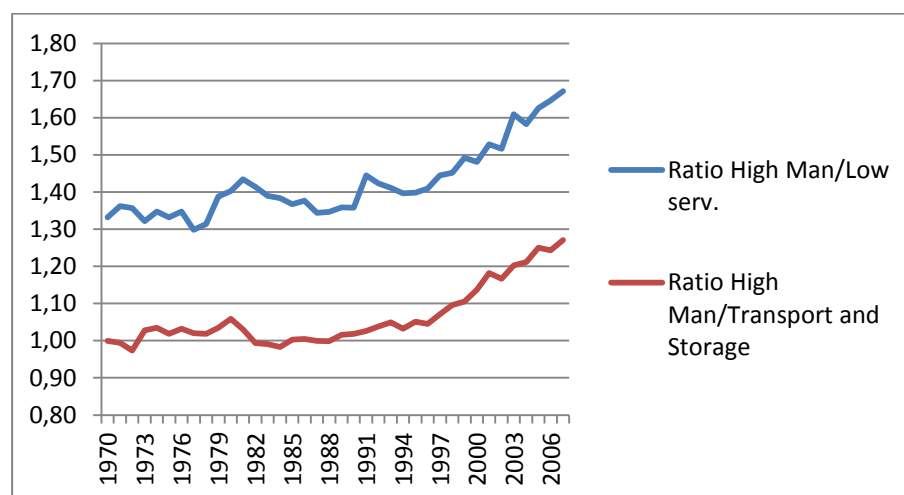
We now turn to how actors translate common ideas of competitive bargaining coordination into specific techniques. Firstly, coordination can be based on either nominal or percentage increases – the latter gradually increasing wage differentials while the former reduce them. This choice is obviously non-trivial. Secondly, coordination can be based on various metrics, ranging from productivity increases, inflation forecasts, unemployment forecasts, profit forecasts or a combination. This goes to show that coordination is neither determined by material structures but a techno-political issue with distributive consequences. Again, the importance of campaign institutions in setting the frame for bargaining coordination becomes pivotal by defining the scope for cost increases. This is not a mechanical procedure. For example, the relevant competitors are chosen, i.e. who are we comparing ourselves with? In 2010, Danish trade unions argued for inclusion of Chinese wage developments on grounds that Danish companies were in direct competition with China. Chinese percentage wage increases were higher than the German. By decontextualizing bargaining and setting it in relation to other bargaining systems, actors can frame coordination according to their interests (Fairclough, 2003).

In Sweden, the role of counter-discourses is illuminating (Schmidt, 2010). For example, Swedish service sector unions are repeatedly challenging the primacy of manufacturing as pattern-setter. They argue that services are also exposed to international competition and by far outnumber employment in manufacturing hence meriting the pattern-setting role (Medlingsinstitutet, 2009). Such counter-discourse is non-existent in Denmark – partly because DI also covers many service sector companies. For Swedish low skilled LO-unions, discourses

of solidaristic wage policies and wage levelling also challenge the manufacturing primacy. In 2012, this led IF Metall to leave the LO-bargaining platform due to disagreements with low skill unions over the design of a common low wage claim. In Denmark, such solidaristic counter-discourse does not exist, even though low skilled workers in e.g. retail, cleaning and food-processing are clearly losing out in company level wage deals. This difference is accentuated by the level of control in industry-level agreements: 85 % of Danish agreements are merely minimum wage agreements compared to the widespread use of various fall-back and individual guarantees together with wage pools in Swedish agreements (Medlingsinstitutet, 2012; DA, 2013)

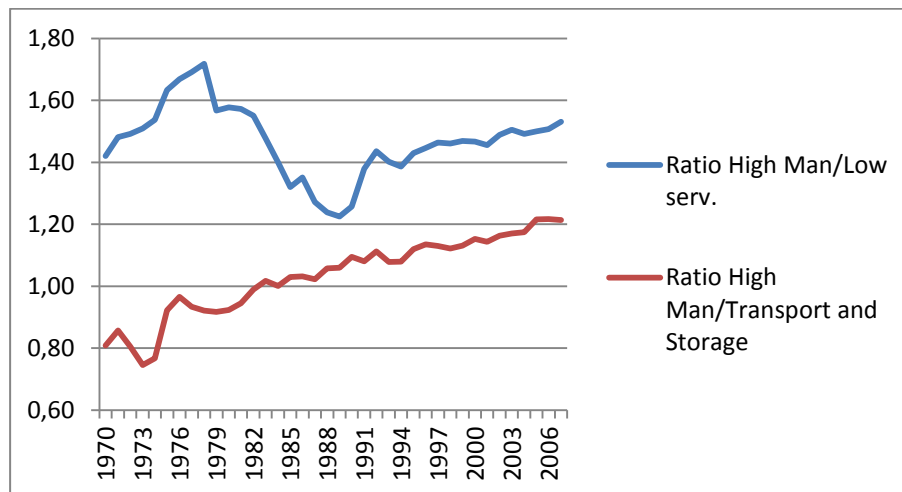
The difference between discourses on low wage in Sweden and Denmark brings the issue of real interests that Lukes (2005: 154) using Connolly (1972: 472) proposes. Real interests are defined when... *'x is more in A's interest than y, if A were he to experience the result of both x and y, would choose x as the result he would rather have for himself'*. The problem is that 'x' might not exist in reality, and we need counterfactual analysis through comparison to realise actual power exercise. We use KLEMS data (2009a; 2009b) on average wage ratios between low skill workers in retail/hotels/restaurants and transport, respectively, vis-à-vis high-skill manufacturing workers to illustrate subjective versus real interests. During the 1970s until the late 1980s wage differences were stable or shrinking. However, since decentralisation and use of framework agreements of wages, differentials have soared in Denmark while only increasing modestly in Sweden.

Figure 1: Denmark



Source: KLEMS (2009a)

Figure 2: Sweden



Source: KLEMS (2009b)

Under the current system of bargaining coordination, why do Danish low skill workers unions, despite relatively high union densities, accept relatively larger wage differentials compared to their Swedish colleagues? Structuralist accounts will stress that they have no choice due to e.g. low demand for low skill workers and labour migration pressing wages down. Surely, this might be true, but are structural differences between Sweden and Denmark really that significant? An alternative explanation could be the following: Arguably, acceptance of growing wage differentials in both countries is legitimised through collective memories of the ‘bad old days’ (March, 2010): We need wage moderation and flexibility to ensure that the foot-loose inflation, loss of competitiveness and high unemployment of the 1980s and early 1990s will not return. In Denmark, the discursive battles about the primacy of manufacturing are thwarted by ‘heavy institutionalisation’ of bias through the creation of DI on one hand, and the linkage of agreement areas by the mediation institution. Combined with loose framework agreements at industry-level, wage differentiation is hard to escape both institutionally and discursively for low wage unions. In Sweden, however, counter-discourses of wage solidarity and distributive equality are still alive and kicking and institutions allow defections by low-wage unions due to a relatively fragmented bargaining structure and relatively weak mediation institutions. Moreover, unions hold onto more controls over wages in industry level agreements by fall-back guarantees and designated wage pools to ensure even distribution in local wage bargaining (Medlingsinstitutet, 2012).

Against the backdrop of material structures, the rationalist and discursive institutionalisms can therefore complement each other, by showing how meaning structures frame interests in material structures and how this framing serve some actors better than others (Carstensen, 2010). And we can indicate how the formalisation of these meaning structures in concrete institutions produces power-relations and mobilisation of bias with negative distributive consequences for some actors.

CONCLUDING REMARKS

The article has reviewed and discussed three different theoretical approaches to the study of coordinated collective bargaining which posit three different causal mechanisms for coordination. Rational choice posited power relations based on resource-dependence; rationalist institutionalism posited rules of the game and mobilisation of bias; and discursive institutionalism posits shared meaning structures and moulding of interests. It was thus argued that each approach is based on different views of coordination involving exercise of power where some actors make others do what they otherwise would not have done. Looking at examples from Sweden and Denmark, the overall conclusion is that approaches stressing power bargaining coordination are accurate. This allows for a ‘Sinatra-inference’: if these theories can make it in consensual and egalitarian countries, they can (probably) make it anywhere. The article accordingly rejects notions that coordination is purely cooperative and follows Traxler et al. (2008) who put power at the heart of coordination studies – a proposition that can be transferred beyond collective bargaining. This does not preclude elements of cooperation in coordination, but it shows that cooperation is conditioned by power relations.

Moreover, we asked whether the three approaches are competing or complementary to each other. Firstly, rational choice and rationalist institutionalism share the logic of instrumentality and exogenous interests in bargaining coordination, but the latter introduces mediating institutions and – as argued by for example Moe (2005) – mobilisation of bias. Indeterminacy of material structures as well as path dependency of institutions is another layer to the explanation of bargaining coordination which rational choice is inapt to explain. This warrants institutionalist explanations. Nevertheless, as a point of departure, rational choice makes a useful contribution to understanding ideal typical interest configurations between bargaining actors. Secondly, at the outset, rationalist and discursive institutionalisms are ontologically incompatible due to their diverging views on interest formation and thus concepts of power. If the assumption of exogenous interests, however, is relaxed and we accept that interests depend on how actors ‘...filter, interpret and act – or not – upon the constraints they face’ (Murray et al., 2010: 327), then we do not have to discard strategic behaviour based on material structures. Instead, we need

to appreciate the normative and cognitive processes inherent in strategies leading to coordination.

Although we stress the power effect of discourses, discourses about coordination should not be viewed too deterministically. Similarly to the approach by Carstensen (2010), we see signs in Sweden and Denmark of how the ideas of wage moderation, flexibility, solidarity and voluntarism are being moulded by unions and employers' associations that are under continuing pressure from structural changes in markets and technology. Flexibility is framed both as something that collective bargaining now allows but also controls. Wage moderation is framed as a win-win solution that increases competitiveness and employment, although it will gradually increase wage differentials. Solidarity in Denmark is no longer equal wage for all work but equal wage for similar jobs and equal opportunity (Baccaro and Locke, 1998; Pontusson, 2011). Finally, voluntarism is no longer merely non-interference by the state (Kahn-Freund, 1954) but also bargaining autonomy vis-à-vis manufacturing. This dynamic interpretation of recent developments goes beyond bargaining structures and levels and puts power back into studies of coordination by asking the fundamental question: Whose interests prevail in coordinated bargaining?

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